CorrierEconomia 30 April 2007

Interview
Guarguaglini: “An equal partnership with Thales”
“We want an equal global partnership with French company Thales” Finmeccanica chief reveals all in an interview.

By Giovanni Paci, page 5.

Interview. “We have EUR 4 billion to spend. Ansaldo Energia is already ripe for listing.” Finmeccanica chief also opens up on French links for the first time.

Guarguaglini: “A partnership among equals”

Finmeccanica CEO rules out “partial agreements” with the French defence electronics company Thales.

By Giovanni Paci

EUR 4 billion to go shopping and an equal partnership with French company Thales to become world leader in defence electronics; the listing of Ansaldo Energia on the stock market (“already ripe for listing”) and the search for a new partner in the high-speed rail sector to replace Alsom, while continually striving to improve margins. In short, these are the objectives of Pier Francesco Guarguaglini in his last year as Chairman and CEO of Finmeccanica. In this interview he talks about the good results obtained during his tenure, and sets out the group’s future development.

The announcement on 20 April that the group would launch a capital increase has thrown the markets into turmoil. Are you ready to go shopping?
“Yes, our strategy is to increase our critical mass through investment and acquisitions. The option to obtain further funds on the market, including via a capital increase, would give us more freedom to act, as some transactions need to be concluded quickly. But we are only interested in companies that have the same aims as Finmeccanica: a focus on aerospace and defence, healthy margins and internationalisation of their manufacturing base.”

How much money do you have for acquisitions?
“At the moment we have around EUR 2 billion, but this could more than double if we were to launch a capital increase or put some of our assets on the market.”

Would this include listing Ansaldo Energia?
“Yes. Ansaldo Energia is already ripe for listing. The timescale is no longer dependent on the company itself, which is turning out excellent results, but on Finmeccanica alone”.

Merrill Lynch has suggested that you acquire the UK companies Cobham and Ultra Electronics, or Bell Helicopters. What do you think of these ideas?
“I can’t comment on analysts’ opinions. Naturally, if I were told that high-calibre companies such as Bell or Sikorsky were for sale, then of course I’d be interested, but I don’t think they’re on the market.”

What are your targets?
“We are examining the possibilities opening up in defence electronics in Europe and the US. In the last few years we have spent over EUR 3 billion on acquisitions, including 50% of Agusta Westland, BAE's avionics and communications business and Datamat, not to mention a few deals such as STN Atlas and Ericsson, which didn't come to fruition.”

You have been talking about a partnership with French defence electronics company Thales for a year but without ever going into detail. What is Finmeccanica hoping to achieve?
“The only possible way forward would be a global agreement. Finmeccanica’s objective would be to combine all our electronics operations straightaway, but on two conditions: first, that the company that takes over the assets would be listed on the stock market; and second, that the two shareholders (i.e. Finmeccanica and a French company) would have equal stakes. The new entity would control more than 70% of the European market and have the critical mass to be a world leader. Moreover, Alcatel’s shareholdings in two space sector joint ventures have been transferred to Thales. This means that any agreement with Thales would include space as well as electronics.”

In essence, then, it’s a similar control structure to the one adopted for STM?
“That’s a good model, but defence electronics is more strategic for us than microchips. We must consider the role of the controlling shareholders very carefully.”

But Denis Ranque, head of Thales, has said that he does not envisage a merger as it would be “too big”. Would it not be simpler to proceed in stages, merging a few businesses?
“I don’t think it’s possible do things by halves. There is complete product overlap and both companies are doing well. Merging the two companies would involve a lengthy rationalisation process that would increase the value of the new company and investment in R&D. I don’t agree with those who think in terms of partial agreements, as neither of the two companies would want to transfer their strategic businesses to the other. Who would want to give up control of avionics or air traffic control? No, the only solution would be an immediate and total merger.”

Finmeccanica’s turnover in electronics is around EUR 4 billion. For Thales the figure is around EUR 10 billion. Could the cash set aside for acquisitions be used to make up the balance?
“No, not at all. Out of a total of EUR 14 billion, we will contribute EUR 4 billion, which would amount to around 30%. This is more or less the stake that each of the two partners would be likely to hold individually."

Under what conditions could the agreement go ahead and what is the timescale?
“We would need the political will of governments, not only the French and Italian governments, but also the UK government, as Finmeccanica and Thales control a large part of the UK defence electronics industry. Everything was on hold pending the French elections in May. We can now start talking about it seriously, but I don’t expect anything to happen quickly.”

Turning to aeronautics, you wanted to buy 50% of ATR from the French-German company EADS. What stage have you reached in this?
“EADS said no quite clearly, so at that point I dropped the plan”.

What happened in the US? Reports say that you lost the USD 15 billion contract for combat helicopters due to delays in the presidential fleet contract. Is that true?

“Not at all. There were contrasting views and pressures in the Pentagon, and then the tender was re-opened. Our partner Lockheed is confident it can win it. As for the presidential fleet, delays are normal at the initial stage. We will deliver to the specified deadlines.”

Staying with the US, what’s the position with the tender for the C27J cargo aircraft?
“The result is expected at the end of May. I’m sure the technical assessment has been made. It’s now just a matter of waiting for the Pentagon’s decision. If we are awarded the tender, we will build a plant in Florida.”

It’s been reported that you are also interested in buying the UK Airbus plant.
“No. We don’t want to increase manufacturing capacity in aerostructures.”

Looking now at trains, Ansaldo Breda cost you EUR 400 million in two years. What happened there?
“Three things: we had more problems than anticipated; we had management difficulties, and it certainly didn't help that the investment planned by the Italian state railways did not materialise on time, especially the order for 50 ETR 403 trains. We are now looking to break even in 2009.”

What happened with the agreement with Alstrom for high-speed trains that can travel at over 250 km per hour?
“It didn’t get off the ground and has now been superseded. We are looking for a global partner, and not only in Europe. We are also looking at Kawasaki in Japan. But to be credible we need to start with the domestic market. the Italian state railways must order some trains.”

In 2006 you recorded earnings of over EUR 1 billion, but only thanks to capital gains of EUR 695 million. The market did not consider this a structural result. What do you think?
“Apart from the daily fluctuations, the share price did not drop. In 2007, we forecast EBIT of around EUR 1 billion. The margin for the military sector is now close to 10%, which was my objective for 2008, and without the losses made by Ansaldo Breda, Finmeccanica's EBIT margin would have been over 8% already. Other critical areas are Selex Communications and Officine Aeronavali, but they are not a cause for concern, although we have to keep working hard at them."

How would you take stock of your five years with Finmeccanica?
“Finmeccanica now has much more clout. These days we can enter into talks with governments worldwide, including those of Russia, the UAE, Japan or in the US because they all know what we're about. This is reflected in our capitalisation, which is today around EUR 10 billion. It hasn't been easy, but when investors realised that we are not just all talk but that we keep our promises, the Finmeccanica share began to rise. However, we must stay continually alert to our management style to ensure the profitability of all our businesses.”